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Fundamentals , universe creation and appraisal of major Shari'ah-compliant stocks screening methodologies (Article)

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Abstract

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This study will examine and review the existing Shariah-compliant stock screening methodologies and will propose a universal standard Shari'ah screening methodology. Apart from understanding the philosophy, definition, components and functions of Islamic stocks, it is also important to understand the conditions and rules of the Islamic stock market, as well as the universe creation and stock selection, screening process, tolerable level of non-permissible elements, change of Shari'ah-compliant status, purification process, and periodic and ongoing review of Shari'ah-compliant stocks. In this paper, we demonstrate the fundamentals and processes of Shari'ah-compliant stocks and show how world major stock index providers create the universes for Shari'ah-compliant stocks. Finally, we examine the similarities and differences of Shari'ah-compliant stock screening in terms of methodologies. Despite all the differences and inconsistencies, it is recommended that the relevant authorities, or index providers, should set a universal standard with clear guidelines and understanding to be applicable to all. Eventually, this universal standard will accelerate the commercial and economic cooperation among Muslim communities around the world.

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Islamic finance Islamic stock Shari'ah-screening methodology

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